




UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

MAR 5 1999

MEMORANDUM FOR: Linda J. Bilmes
Acting Chief Financial Officer and
Assistant Secretary for Administration

FROM: Johnnie E. Frazier
Acting Inspector General 

SUBJECT: *General Administration's WCF and S&E Funds*
FY 1998 Financial Statements
Audit Report No. FSC-10873-9-0001

The attached report presents unqualified opinions on the fiscal year 1998 financial statements for the General Administration's Working Capital Fund (WCF) and Salaries and Expense Fund (S&E). The unqualified opinions are especially noteworthy considering the significant changes mandated by OMB Bulletin No. 97-01, *Formats and Instructions for the Form and Content of Agency Financial Statements*, which required the preparation of four new financial statements.

Also provided are reports on WCF's and S&E's internal controls and compliance with laws and regulations, including management's comments. Both Funds are operated by one management team under the same internal control structure and procedures for compliance. Consequently, the Report on Internal Controls and the Report on Compliance with Laws and Regulations apply to both Funds. The accompanying overviews and financial statements were prepared by WCF and S&E management.

In accordance with the Chief Financial Officers Act of 1990, as amended by the Government Reform Act of 1994, an audited financial statement must be prepared covering all accounts and activities for each office, bureau, and activity of the Department. The independent certified public accounting firm of Gardiner, Kamyra & Associates, PC (GKA) was contracted to audit WCF's and S&E's FY 1998 Balance Sheets and related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for FY 1998. The Office of Inspector General defined the audit scope, selected the contractor, and oversaw the performance and delivery of the audit.

In the opinion of GKA, the financial statements present fairly, in all material respects, the financial positions of WCF and S&E as of September 30, 1998 and the net cost of their operations; changes in net position; budgetary resources; and reconciliations of net costs to obligations of WCF and S&E for FY 1998, in conformity with the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board.

Financial statement audits are a key gauge for measuring the progress of a bureau in meeting the goals and objectives of the CFO Act. The results of the audit indicate that WCF and S&E and their provider of accounting services have been successful in establishing an internal control structure that facilitates the preparation of reliable accounting and financial information.

While GKA's Report on Internal Controls contains no material weaknesses, it does identify two reportable conditions in WCF's and S&E's internal control structure:

- Controls Surrounding the Financial Accounting and Reporting System Need Improvement (Repeat Condition)
- Controls Surrounding Property for the WCF and S&E Should Be Improved (Repeat Condition)

As a result of a FY 1997 general controls review performed by the OIG at the Office of Computer Services (OCS), several issues were identified relating to the controls surrounding the mainframe system on which the Financial Accounting and Reporting System (FARS) application is processed. GKA continues to consider these issues to be a reportable condition to the WCF and S&E because FARS processes the financial information used in preparing WCF's and S&E's financial statements. Since WCF and S&E management is not responsible for the general controls surrounding FARS, recommendations were directed to OCS management in the OIG Report No. FSD-10021-8-0001, *Information Systems General Controls Review of OCS*.

Problems with the WCF and S&E property retirement process resulted in discrepancies between the subsidiary property ledger and the capitalized property records in the FARS accounting system. Because these discrepancies dealt with property items that were fully depreciated, the impact on the financial statements was immaterial. However, corrections should be made to bring the subsidiary property ledger and FARS into agreement.

GKA identified one instance of material non-compliance in its Report on Compliance with Laws and Regulations. Under the Federal Financial Management Improvement Act of 1996, the auditors are required to report on whether the bureau's financial management systems substantially comply with Federal financial management systems requirements, applicable accounting standards, and the United States Government Standard General Ledger at the transaction level. FARS does not maintain sufficient commonality of data elements and transactions processing sufficient to ensure timely, accurate and effective financial reporting, as required by Federal guidance.

Our office reviewed draft versions of the WCF and S&E overviews to their FY 1998 financial statements. The overviews provide the linkage between the financial statements and the Government Performance and Results Act of 1993 that requires government entities to collect and report information on their performance in meeting goals and objectives. WCF and S&E had

incorporated many of our prior year suggestions to improve the clarity and conciseness of their overviews, and presented an improved discussion of their activities and results.

Management was also responsive to our comments on the FY 1998 draft overviews, and indicated that they plan to make additional revisions to strengthen the overview for FY 1999 and beyond. In particular, WCF and S&E should provide additional discussion on performance goals, such as comparisons of actual results to benchmarks and discussion of variances. The OIG realizes that improving the overview is an iterative process and encourages WCF and S&E to strengthen next year's discussion of the entity's results.

As required by DAO 213-5, please provide an audit action plan addressing the recommendations in the attached report, within 60 days of this memorandum. The format for the plan can be found in Exhibit 7 of the DAO. Under the DAO, the Office of the Inspector General must concur with your proposal.

If you wish to discuss the contents of this report or the audit action plan, please contact George E. Ross, Assistant Inspector General for Auditing, on (202) 482-1934, or Thomas McCaughey, Director, Financial Statements Audits Division, on (703) 603-0301. We appreciate the cooperation and courtesies extended by WCF and S&E during the audit.

Attachment

cc: James Lawler
Director, Office of Executive Budgeting

John McGuffin, Comptroller
National Institute of Standards and Technology

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